

EXHIBIT B

AmTrust Financial Services: A House Of Cards?

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We believe short sellers have the winning position in AmTrust Financial Services (AFSI). Owners of AFSI should take careful note of the discussions of consolidation of earnings and valuation of assets that could result in large losses and regulatory scrutiny for the company.

AFSI is a multinational insurance company headquartered in New York City that provides specialty property and casualty insurance to small and medium businesses. AFSI's primary business lines include worker's compensation, commercial automobile, general liability, extended warranty, UK legal expense and Italian medical malpractice coverage. The company also invests in [life settlement contracts](#) ("LSCs").

It seems suspicious that a company could take on so many different types of risk while beating consensus estimates for 14 consecutive quarters. We find it difficult to believe that AFSI could quickly enter areas where they had no previous experience and at such a pace without ever missing a step. This has led us to take a deeper look into AFSI's books and accounting. The SEC has been very active in investigating LSC investments ([GWG Holdings is now under investigation](#)), and we think they will be very interested in AFSI's valuation of LSCs and the reported profits from the LSC portfolio.

In addition to LSC-related mark to market gains, it appears that management is ceding/sending losses to offshore captive reinsurance companies it has purchased since 2009, **but not disclosing these losses in SEC financial statements as required.**

We will show that AFSI appears to be inflating earnings/net equity via offshore entities, making it difficult for regulators to see the complete picture and/or get accurate information. We think that AFSI could be next in line to face regulatory scrutiny.

Summary of Findings

1. A cross section of public documents (AFSI SEC filings, Statutory financial filings by AFSI subsidiaries and Credit Rating information) shows that AFSI appears to be excluding losses of wholly-owned subsidiaries in its SEC filings
2. **From 2009 to 2012 we believe that AFSI has not disclosed a total of \$276.9 million in losses ceded to Luxembourg subsidiaries.**
3. AFSI seems to be mismarking its LSCs by using egregiously aggressive assumptions relative to peers despite lawsuit documents showing AFSI holds many policies which are probably worthless.
4. **Applying industry standard discount rates would result in an impairment/markdown of \$90-\$135 million in AFSI LSCs.**
5. These findings regarding AFSI's LSCs are especially troublesome since more than half of the policies held by AFSI are of contracts where Phoenix Life Insurance, ([PNX](#)) (**see footnote 1**) is the issuing carrier / counterparty. Since PNX and/or its subsidiaries are faced with possible bankruptcy, its ability to honor the payout on these policies could be diminished and AFSI's expected collection on these contracts would be even less than other comparable policies.
6. Press releases contain different accounts than those reported in SEC filings, leading us to question the company's internal controls over financial reporting.
7. We conclude that AFSI is worth between **\$3.87 and \$13.00 per share.**

Additionally, AFSI CFO Ronald Pipoly & COO Michael Saxon were executive officers at Credit General ("CGI"), a

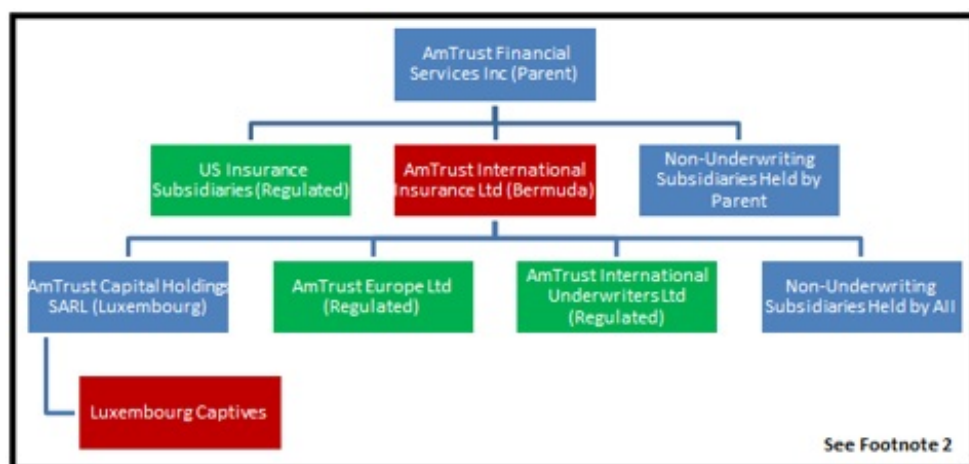
Insurance Industry Is No Stranger to Fraud

The complexity of insurance accounting as well as the latitude management teams can use in the accounting for certain items can make it difficult to detect fraudulent or risky behavior. [Mutual Benefit](#) (private), [EEA Life settlements Fund](#) (private), [Absolute Life Solutions](#) (once a public company), and [Life Partners Holdings Inc](#) (LPHI) are examples of companies that had their feet in the toxic life settlement insurance sector and whose accounting tricks eventually were detected. This led to a massive destruction of investor capital.

Just recently, shares of Tower Group, Inc. (TWGP) imploded shortly before and after an [August 7, 2013 announcement](#) that the company was delaying its 10-Q to reevaluate issues related to reserves, the integration of its Canopus Bermuda merger, and its integration of goodwill and certain tax accounts. The events surrounding these issues led to over [\\$700 million in charges](#) incurred upon TWGP and a credit rating downgrade by insurance rating agency A.M. Best.

AFSI 101

In order to understand AFSI, it's important to comprehend its organizational structure, summarized below:



The subsidiaries (or groups of subsidiaries and parent) in blue do not directly participate in insurance underwriting. The subsidiaries (or groups of subsidiaries) in green are AFSI's regulated insurance subsidiaries which can write policies directly. The subsidiaries (or groups of subsidiaries) in red are "captive" reinsurance subsidiaries.

Regulatory and Accounting "Arbitrage"

A [captive reinsurance company](#) is wholly owned by an affiliated entity (in AFSI's case, the parent) to insure the risks of its other insurance subsidiaries under the same corporate umbrella. Captive reinsurance subsidiaries are used to shift profits to lower tax jurisdictions or to reduce capital requirements. By using captives, they need to have fewer reserves to pay out policy holders that need to collect, and can instead take more risk than they otherwise could if they stayed at home.

Since AFSI voluntarily gave up the tax benefits associated with this structure (**see footnote 3**), we guess the benefit for AFSI is capital-related. We believe AFSI is interested in Bermuda in order to shield operations from the view of investors, regulators and ratings agencies.

The Luxembourg Cookie Jar

AFSI uses an offshore captive reinsurer called AmTrust International Insurance ("All") in Bermuda to off lay of more

than half of its contracts. We believe it is doing this not only lay off the risk, but to in effect hide the eventual losses from this risk. Under All sits a Luxembourgian domicile captive insurer called ACHL. We believe AFSI is using this web of subsidiaries to move bad policies and conceal losses. Here is a snapshot showing loss and premium information from 2010 through 2012 comparing AFSI SEC financial information to AM Best data and a statutory filing from (Schedule Y) of one of its wholly owned subs, **Technology Insurance Company ("TIC")**.

AM Best + ACHL Comparison to SEC Filings								
2012 NPE & LAE	US Subs	AEL	AIUL	All	ACHL	Subtotal (AM Best + TIC schedule Y)	10K	10K minus Subtotal
NPW	487.20	190.08	40.95	934.67	-	1,652.90	1,648.04	(4.86)
NPE	403.10	163.91	34.64	821.37	-	1,423.02	1,418.85	(4.17)
Net L/LAE	291.05	95.03	31.30	535.08	86.91	1,039.37	922.68	(116.70)
Source: AM Best AM Best AM Best AM Best TIC Sched Y N/A 10K N/A								
2011 NPE & LAE	US Subs	AEL	AIUL	All	ACHL	Subtotal (AM Best + TIC schedule Y)	10K	10K minus Subtotal
NPW	361.63	172.32	33.09	701.40	-	1,268.44	1,276.60	8.15
NPE	302.05	128.05	29.08	568.70	-	1,027.88	1,036.86	8.98
Net L/LAE	232.25	51.78	26.72	373.83	96.06	780.63	678.33	(102.30)
Source: AM Best AM Best AM Best AM Best TIC Sched Y N/A 10K N/A								
2010 NPE & LAE	US Subs	AEL	AIUL	All	ACHL	Subtotal (AM Best + TIC schedule Y)	10K	10K minus Subtotal
NPW	289.04	95.23	29.72	412.03	-	826.02	827.23	1.21
NPE	255.37	67.55	25.47	395.04	-	743.44	745.66	2.22
Net L/LAE	174.31	28.97	27.52	249.53	62.12	542.45	471.48	(70.97)
Source: AM Best AM Best AM Best AM Best TIC Sched Y N/A 10K N/A								

Table Items Defined:

NPW = Net Premiums Written

NPE = Net Premiums Earned

Net L/LAE = Net Loss/Loss Adjusted Expense

AEL = AFSI's UK subsidiary

AIUL = AFSI's Irish subsidiary

All = AFSI's Bermuda subsidiary

ACHL = AFSI's Luxembourg subsidiary

TIC = One of AFSI's U.S. subsidiaries

Referencing the last column of the table above, we can see that AFSI is not consolidating the losses ceded to ACHL (see footnote 4), but appears to be recognizing premiums associated with those policies. As you can see, the 10-K reconciles when it comes to premiums. But when it comes to recognizing losses, those do not appear to be present in the 10-K. The mismatch approximates the losses being sent to Luxembourg, **so it would appear to us that AFSI is not recognizing certain losses in its SEC filings.**

AIUL's 2009 AM Best report is not available, so we're unable to perform the same exercise for 2009. We will revisit this table later in our report and also present evidence that AFSI also did not consolidate losses into ACHL in 2009.

GAAP Accounting Shenanigans

We believe that AFSI is inappropriately taking advantage of differences between U.S. GAAP and Luxembourg GAAP to create a cookie jar for earnings. In brief, AFSI's Bermuda subsidiary ("All Bermuda") "stuffs" losses into "ACHL", yet keeps the premiums.

Let's look at the clear evidence that has led us to conclude that All Bermuda is ceding losses to ACHL, and that the results reported to investors do not accurately portray this fact.

In simple terms, we believe AFSI acquires shell companies that have built up “equalization” balances for smoothing future earnings that are recognized in Luxembourg GAAP, but not US GAAP (**see footnote 5**). Then AFSI appears to inappropriately incorporate the results of Luxembourg entities under Luxembourg GAAP (which allows the use of these smoothing balances) instead of what the results would have been under U.S. GAAP (which does not allow the use of smoothing balances). Basically, Luxembourg GAAP allows these smoothing balances to offset future losses vs. U.S. GAAP that prohibits this practice specifically because these balances allow companies to avoid reporting losses on financial statements. Thus, *real* losses AFSI is sending/“smoothing out” in Luxembourg are not being reported in the results AFSI reports in its SEC filings. We believe this is why AFSI has spent \$730.9 million buying Luxembourg captives – it is the key to being able to report steady profit growth.

Origin Luxembourg “Equalization” Balances

AFSI did not incur the equalization balances. Instead, they purchased entities that already had the balances built up.

This all started in 2009 when AFSI bought Imagine Captive Holdings Limited (subsequently renamed AmTrust Capital Holdings Limited or “ACHL”), a Luxembourg holding company which owned three Luxembourg-domiciled captive insurance companies (“Luxembourg Captives”). They proceeded to purchase another 8 entities through 2012. The full list is below:

Luxembourg Acquisitions 2009-2012		
<u>Date</u>	<u>Target</u>	<u>Purchase Price (mm)</u>
Mar-09	Imagine Captive Holdings Ltd	\$ 0.02
Oct-09	Watt Re	\$ 30.20
Dec-09	Group 4 Falck Reinsurane SA	\$ 22.80
May-10	Euro Int'l Reinsurance SA	\$ 58.00
Jun-11	Credit Mutuel Reinsurance SA	\$ 315.00
Dec-11	Reaal Reassurantie SA	\$ 79.00
Dec-11	Vandermoortele Int'l Reinsur SA	\$ 66.00
Dec-12	Inter Re SA	\$ 40.60
Dec-12	Socare SA	\$ 119.30
	Total	\$ 730.92

In total, AFSI paid \$730.92 million to buy Luxembourg-domiciled entities that had approximately \$688 million (**see footnote 6**) of “equalization” balances.

We have no problem with AFSI’s purchase of the entities as long as the parent company is properly recognizing subsequent intra-company transactions appropriately under US GAAP. However, we believe AFSI is not recognizing these intra-company losses correctly — most likely by mixing and matching Luxembourg GAAP and US GAAP.

In the following two sections we will show that magnitude of losses (that ACHL is absorbing and clearly not disclosing) by comparing its financial statements presented in SEC filings with the public filings of its subsidiaries. We will also show that ACHL is receiving no premiums.

Proof That ACHL Received Zero Premiums

All Bermuda’s 2010 financial statements break out premiums assumed and premiums ceded for 2009/2010, which we show below.

ACHL Luxembourg received zero premiums		2010		2009	
		Assumed Written	Assumed Earned	Assumed Written	Assumed Earned
Affiliates:					
TIC		\$318,693,919	\$315,067,751	\$265,197,718	\$229,621,383
RIC		74,793,279	80,085,358	80,124,404	83,107,901
WIC		143,669,673	131,320,749	144,069,393	112,471,151
AHC		6,385,179	7,682,319	10,976,063	13,437,398
SHIC		27,722,927	26,647,019	29,827,057	37,683,646
MCIC		9,039,723	10,324,619	12,390,045	16,399,362
AICK		19,538,267	19,942,109	22,005,024	29,617,013
ALIC		34,057	164,732	401,931	1,066,756
IGI		86,759,480	69,896,002	52,238,872	30,580,408
AIUL		177,808,838	162,814,162	119,180,195	93,619,623
Non-affiliates		10,625,019	12,364,243	6,414,402	10,643,079
Gross premiums assumed		875,070,361	836,309,063	742,825,104	658,247,720
Premium ceded		463,042,966	441,271,682	379,784,891	357,930,114
Net premiums assumed		\$412,027,395	\$395,037,381	\$363,040,213	\$300,317,606

Source: All Bermuda's 2010 Audit

Notice that ACHL is **not** presented in this table [provided by All Bermuda](#). Affiliates TIC through ALIC are AFSI's regulated US subsidiaries. IGI is the holding company for AEL, AFSI's regulated UK subsidiary. AIUL is AFSI's regulated Irish subsidiary. Finally, "Premiums Ceded" relate to **Maiden Holdings (MHL)** and not another entity, as evidenced by All Bermuda's **Reinsurance Footnote** which we show below:

The following is the effect on the Company's balance sheet as of December 31, 2010 and 2009 related to the Maiden Quota Share agreement:		
	2010	2009
Assets and liabilities:		
Reinsurance recoverable	\$ 386,932,194	\$ 293,626,000
Prepaid reinsurance premium	283,899,240	261,117,680
Ceded reinsurance premiums payable	(95,628,932)	(85,154,730)
Note payable	(167,974,835)	(167,974,835)
Results of operations:		
Premium written - ceded	\$(463,042,966)	\$(379,784,891)
Change in unearned premium - ceded	21,771,284	21,854,777
Earned premium - ceded	\$(441,271,682)	\$(357,930,114)
Ceding commission on premium written	\$ 144,597,515	\$ 118,990,943
Ceding commission - deferred	(6,486,714)	(6,140,532)
Ceding commission earned	\$ 138,110,801	\$ 112,850,411
Incurred loss and loss adjustment expense - ceded	\$ 295,469,130	\$259,780,091
Interest expense	\$ 982,440	\$ 2,958,495

Source: All Bermuda 2010 Audit

Proof That Losses Exist

Statutory filings of All Bermuda

The statutory filings of All Bermuda in 2010 (the only year they are publicly available) show a mysterious **\$62.1 million dollars of losses being ceded to Luxembourg in 2010 and \$31.8 million in 2009**. The following are pictures from All Bermuda regulatory filings in 2009 and 2010:

"All Bermuda" ceded "Incurred Losses" and Loss Adjusted Expenses (LAE) to ACHL of \$31.8 million in 2009)			
<i>December 31, 2009</i>			
	Assumed (Ceded) Incurred Losses and LAE	Assumed (Ceded) Unpaid Losses and LAE	Assumed Unearned Premium
Affiliates:			
TIC	\$147,922,710	\$207,281,914	\$159,548,359
RIC	54,276,513	110,193,971	43,605,570
WIC	85,914,231	72,663,346	113,475,457
AIIC	11,034,848	15,455,569	3,802,028
SHIC	24,893,206	24,732,359	12,849,715
MCIC	11,271,161	9,136,291	5,262,734
AICK	22,012,635	20,123,649	9,756,286
TLIC	1,182,164	1,162,150	130,671
IGI	25,706,482	10,732,110	40,515,157
AIUL	83,482,157	22,483,452	108,248,981
ACHL	(31,852,077)	(31,852,077)	-
Non-affiliates assumed	8,658,337	17,870,275	7,509,266
Net of losses ceded to ACHL	444,502,367	479,983,009	504,704,224
Non-affiliates ceded	259,780,091	249,972,932	261,117,230
	\$184,722,276	\$230,010,077	\$243,586,994

Source: All Bermuda 2010 Audit

"All Bermuda" ceded "Incurred Losses" and Loss Adjusted Expenses (LAE) to ACHL of \$62.1 million in 2010)			
<i>December 31, 2010</i>			
	Assumed (Ceded) Incurred Losses and LAE	Assumed (Ceded) Unpaid Losses and LAE	Assumed Unearned Premium
Affiliates:			
TIC	\$215,200,735	\$270,068,174	\$164,178,975
RIC	31,966,805	106,069,462	38,734,616
WIC	109,585,192	106,096,164	125,915,346
AIIC	5,023,312	13,107,358	2,504,888
SHIC	19,904,440	24,013,337	13,925,623
MCIC	6,459,969	8,072,555	3,977,838
AICK	11,437,155	19,302,189	9,352,444
ALIC	(84,026)	644,621	(4)
AEL	55,755,472	38,477,843	57,378,636
AIUL	141,553,897	54,462,725	123,243,658
ACHL	(62,123,808)	(93,975,885)	-
Non-affiliates assumed	10,904,457	21,752,578	5,770,040
Net of losses ceded to ACHL	545,583,600	568,091,121	544,982,060
Non-affiliates ceded	296,056,875	323,190,424	283,899,240
	\$249,526,725	\$244,900,697	\$261,082,820

Source: All Bermuda 2010 Audit

Statutory filings (2010, 2011, 2012) of AFSI's wholly-owned subsidiary, Technology Insurance Company (TIC)

The statutory filings of AFSI's wholly owned subsidiary, Technology Insurance Company, confirm the All Bermuda 2010 Financials disclosure – **to the dollar**. Specifically, the following table shows that **\$62.1 million** was sent to ACHL in 2010 which matches the net loss ceded figure in the above table of All Bermuda. We then present two additional tables from TIC statutory filings showing that a total of **\$183 million** of losses was ceded to ACHL throughout 2011 and 2012.

2010 – Amtrust Capital Holdings Limited (ACHL): \$62.1 Million Of Losses Via Reinsurance Agreements

ANNUAL STATEMENT FOR THE YEAR 2010 OF THE TECHNOLOGY INSURANCE COMPANY, INC.

SCHEDULE Y

PART 2 - SUMMARY OF INSURER'S TRANSACTIONS WITH ANY AFFILIATES

\$62.1m of losses sent to ACHL

3	4	5	6	7	8	9	10	11
Names of Insurers and Parent, Subsidiaries or Affiliates	Shareholder Dividends	Capital Contributions	Purchases, Sales or Exchanges of Loans, Securities, Real Estate, Mortgage Loans or Other Investments	Income/ (Disbursements) Incurred in Connection with Guarantees or Undertakings for the Benefit of any Affiliate(s)	Management Agreements and Service Contracts	Income/ (Disbursements) Incurred Under Reinsurance Agreements	Any Other M Activity Not Ordinary Co. the Insurer Business	
Amtrust Capital Holdings Limited						(162,125,806)		
Amtrust Financial Services, Inc.	(12,000,017)	(66,858,396)						
Amtrust Insurance Company Of Kansas, Inc.	1,000,017	2,500,000			(15,500,000)	(206,472)		
Amtrust International Insurance Limited						14,183,511		
Amtrust International Underwriters Limited		17,053,751				23,480,545		
Amtrust North America, Inc.		64,358,396			11,372,131			
Amtrust North America of Florida, Inc.	5,000,000				12,624,067			
Associated Industries Insurance Company	(15,000,000)		(15,560,000)		(1,731,414)	(639,425)		
Boca NMS, LLC			5,560,000					
I.G.I. Group Limited						19,196,242		
Milwaukee Casualty Insurance Company					(1,485,548)	(839,632)		
Rochdale Insurance Company						(34,733,324)		
Security National Insurance Company	1,000,000				(4,382,133)	4,340,699		
Technology Insurance Company Inc.					(10,262,673)	16,718,381		
Tiger Capital, LLC		(17,053,751)						
Trinity Lloyds Insurance Company					(6,449)	(187,642)		
Wesco Insurance Company						20,721,536		

Source: TIC 2010 NAIC filing (National Association of Insurance Commissioners)

TIC's filings in 2011 and 2012 further show how these ceded losses have likely become even bigger.

2011 – Amtrust Capital Holdings Limited (ACHL): \$96.1 Million Of Losses Via Reinsurance Agreements

ANNUAL STATEMENT FOR THE YEAR 2011 OF THE TECHNOLOGY INSURANCE COMPANY, INC.

SCHEDULE Y

PART 2 - SUMMARY OF INSURER'S TRANSACTIONS WITH ANY AFFILIATES

\$96.1m of losses sent to ACHL

3	4	5	6	7	8	9	10	11
Names of Insurers and Parent, Subsidiaries or Affiliates	Shareholder Dividends	Capital Contributions	Purchases, Sales or Exchanges of Loans, Securities, Real Estate, Mortgage Loans or Other Investments	Income/ (Disbursements) Incurred in Connection with Guarantees or Undertakings for the Benefit of any Affiliate(s)	Management Agreements and Service Contracts	Income/ (Disbursements) Incurred Under Reinsurance Agreements	Any Other M Activity Not Ordinary Co. the Insurer Business	
Amtrust Capital Holdings Limited						(196,000,261)		
Amtrust Financial Services, Inc.	2,184,358	(24,500,000)		(17,435,000)				
Amtrust Insurance Company Of Kansas, Inc.				1,247,284	(4,950,000)	8,529,338		
Amtrust Insurance Luxembourg SA				(36,072,644)				
Amtrust International Insurance Limited				69,640,708		(43,341,352)		
Amtrust International Underwriters Limited				5,648,965		33,486,062		
Amtrust North America, Inc.					17,903,450			
Amtrust North America of Florida, Inc.	6,654,795				14,206,534			
Associated Industries Insurance Company	(15,839,145)			(4,107,427)		14,344,517		
Boca NMS, LLC				2,002,147				
I.G.I. Group Limited						48,511,169		
Milwaukee Casualty Insurance Company	(11,000,000)			(1,516,546)	(1,635,858)	1,379,730		
Rochdale Insurance Company				26,354,392		(2,807,406)		
Security National Insurance Company		11,000,000		(4,750,477)	(11,323,641)	13,684,741		
Technology Insurance Company Inc.				(64,637,106)	(11,512,000)	23,963,263		
Tiger Capital, LLC				(7,037,520)				
Amtrust Lloyds Insurance Company					8,007	395,951		
Wesco Insurance Company		13,500,000		6,278,285		(2,659,750)		
900 Superior, LLC				7,458,000				

(click to enlarge)

Source: 2011

Technology Insurance Co Statutory Filing Supplement, available via <https://eapps.naic.org/insData/>

2012 – Amtrust Capital Holdings Limited (ACHL): \$86.9 Million Of Losses Via Reinsurance Agreements

ANNUAL STATEMENT FOR THE YEAR 2012 OF THE TECHNOLOGY INSURANCE COMPANY, INC.

SCHEDULE Y

PART 2 - SUMMARY OF INSURER'S TRANSACTIONS WITH ANY AFFILIATES

\$86.9m of losses sent to ACHL

1	2	3	4	5	6	7	8	9	10	11	12
Names of Insurers and Parent, Subsidiaries or Affiliates	Shareholder Dividends	Capital Contributions	Purchases, Sales or Exchanges of Loans, Securities, Real Estate, Mortgage Loans or Other Investments	Income (Disbursements) Incurred in Connection with Guarantees or Underwritings for the Benefit of any Affiliates	Management Agreements and Service Contracts	Income (Disbursements) Incurred Under Reinsurance Agreements		Any Other Material Activity Not in the Ordinary Course of the Insurer's Business			Totals
Agent Alliance Insurance Company, Limited						1137					1137
All Insurance Management LTD		(20,000,000)	(38,000)								(20,038,000)
All Insurance Services LTD		(20,000,000)	(10,220,980)								(30,220,980)
Archer Capital Holdings Limited			16,368,875			(186,927,911)					(170,559,036)
Archer Capital Holdings Limited	7,200,427	44,000,000	40,750,000								91,950,427
Archer Financial Services, Inc.		(35,545,298)									(35,545,298)
Archer Insurance Company of Kansas, Inc.					16,500,000	8,039,262					24,539,262
Archer Insurance Luxembourg SA		(9,540,380)	(102,850,000)			(180,472,967)					(292,963,347)
Archer International Insurance Limited											
Archer International Underwriters Limited			(26,379,004)			21,446,073					(4,932,931)
Archer North America, Inc.					37,702,759						37,702,759
Archer North America of Florida, Inc.					4,322,645						4,322,645
Associated Industries Insurance Company	77,200,427		(4,380,871)		(4,322,645)	7,579,282					76,176,113
Beca WMS, LLC			580,571								580,571
Chap Pro Insurance LLC		5,000,000									5,000,000
C.S.I. Group Limited			(2,363,000)			25,962,254					23,599,254
Chesapeake Casualty Insurance Company			(100,000)		(2,360,320)	1,300,000					(1,160,320)
Chesapeake Insurance Company		2,000,000	(4,381,422)			(13,746,475)					(16,127,897)
Security National Insurance Company		15,000,000	(146,701,400)		(28,210,761)	37,951,958					(124,962,253)
Technology Insurance Company Inc.		15,000,000	(23,760,165)			16,368,875					7,608,710
Tiger Capital, LLC		20,191,265									20,191,265
Archer Lloyd's Insurance Company					304	48,361					48,665
Revue Insurance Company	27,200,427		(181,000,216)			36,969,221					(117,830,568)
100 Superior, LLC		(1,200,054)									(1,200,054)
East North & Superior, LLC		3,864,860									3,864,860

Source: 2012 Technology Insurance Co Statutory Filing Supplement, available via: <https://eapps.naic.org/insData/>

Dipping into the Cookie Jar – Unconsolidated Losses

We are willing to accept that if the losses are being ceded, this is not necessarily a big problem as long as AFSI reports those losses on the 10-K and consolidates them for US GAAP purposes. However, they do not appear to be consolidated and so net income appears to be overstated.

Not In the Net Loss Expense Line

The table below compares the All Bermuda Financial statements for 2010 to the AM Best report for All Bermuda in 2010 and shows that AM Best is basing ratings on the All Bermuda financial statements:

2010 Income Stmt	AM Best	All Filing	Difference
GPW	875.08	875.07	0.01
Reinsur Ceded	463.05	463.04	0.01
NPW	412.03	412.03	-
Change in Unearned	16.99	16.99	(0.00)
NPE	395.04	395.04	0.00
Benefits & Reserves	249.53	249.53	0.00

Below is an excerpt from the 2010 AM Best report, **constructed** from All Bermuda income statements, showing the data points:

STATEMENT OF INCOME		
	12/31/2010 USD(000)	12/31/2009 USD(000)
Reins assumed	875,080	743,886
Gross premiums written	875,080	743,886
Reins ceded	463,053	379,785
Net premiums written	412,027	364,101
Change in unearned premiums	16,990	63,783
Net premiums earned	395,037	300,318
Net investment income	61,368	35,947
Net realized gains/(losses)	-1,288	-34,860
Other revenue	144,691	119,081
Total revenue	599,808	420,486
Benefits & reserves	249,527	184,722
Operating expenses	295,124	219,010
Total benefits & expenses	544,651	403,732

Source: Filed by All Bermuda

This confirms the validity of the All Bermuda 2010 financial statements that show losses being ceded to ACHL from All Bermuda as AM Best does not recognize the losses ceded to ACHL either. It also provides us with a consistent data source to compare the subsidiaries' net earned premium and net loss and loss adjustment expense to the 10-K since AM Best reports are available for AFSI's insurance subsidiaries (US Subsidiaries are filed as a group) **with the exception of ACHL.**

However, since we can derive ACHL's results from the All Bermuda 2010 Financial statements and Schedule Y of AFSI's US Statutory subsidiaries' filings, we can check to see if all net earned premiums and net loss and loss adjustment expenses are consolidated in the 10-K. If it were being consolidated properly, the losses ceded to ACHL would be present in the disclosed aggregated net loss numbers reported, yet they are not, and they appear to be off by roughly the same amounts that are being sent to Luxembourg.

The tables below are the result of that exercise for 2010, 2011, and 2012. AIUL's 2009 AM Best report is not available, so we're unable to perform the same exercise for 2009. The tables clearly show that AFSI is not consolidating the losses ceded to ACHL (**see footnote 7**):

AM Best + ACHL Comparison to SEC Filings								
2012 NPE & LAE	US Subs	AEL	AIUL	All	ACHL	Subtotal (AM Best + TIC schedule Y)	10K	10K minus Subtotal
NPW	487.20	190.08	40.95	934.67	-	1,652.90	1,648.04	(4.86)
NPE	403.10	163.91	34.64	821.37	-	1,423.02	1,418.85	(4.17)
Net L/LAE	291.05	95.03	31.30	535.08	86.91	1,039.37	922.68	(116.70)
Source:	AM Best	AM Best	AM Best	AM Best	TIC Sched Y	N/A	10K	N/A

2011 NPE & LAE	US Subs	AEL	AIUL	All	ACHL	Subtotal (AM Best + TIC schedule Y)	10K	10K minus Subtotal
NPW	361.63	172.32	33.09	701.40	-	1,268.44	1,276.60	8.15
NPE	302.05	128.05	29.08	568.70	-	1,027.88	1,036.86	8.98
Net L/LAE	232.25	51.78	26.72	373.83	96.06	780.63	678.33	(102.30)
Source:	AM Best	AM Best	AM Best	AM Best	TIC Sched Y	N/A	10K	N/A

2010 NPE & LAE	US Subs	AEL	AIUL	All	ACHL	Subtotal (AM Best + TIC schedule Y)	10K	10K minus Subtotal
NPW	289.04	95.23	29.72	412.03	-	826.02	827.23	1.21
NPE	255.37	67.55	25.47	395.04	-	743.44	745.66	2.22
Net L/LAE	174.31	28.97	27.52	249.53	62.12	542.45	471.48	(70.97)
Source:	AM Best	AM Best	AM Best	AM Best	TIC Sched Y	N/A	10K	N/A

Table Items Defined:

NPW = Net Premiums Written

NPE = Net Premiums Earned

Net L/LAE = Net Loss/Loss Adjusted Expense

AEL = AFSI's UK subsidiary

AIUL = AFSI's Irish subsidiary

All = AFSI's Bermuda subsidiary

ACHL = AFSI's Luxembourg subsidiary

TIC = One of AFSI's U.S. subsidiaries

Notice that Net Premiums Written ("NPW"), and Net Premiums Earned ("NPE") of **GroupSubs** (US Subs, AEL, AIUL, All, ACHL) for each year closely approximates the consolidated 10-K disclosures, giving us comfort that no material entities are missing when we try to back into the earned premium and loss numbers disclosed in the 10-K.

However, also note that Net loss and Loss Adjustment Expense (Net L/LAE) of the **GroupSubs**, is **\$290 million higher** than what is disclosed in the AFSI's 10-Ks, and that **\$245 million of this discrepancy comes from ACHL**. **We are not choosing to believe that AFSI got it right on premiums and wrong on losses.** Thus, given the known data points, we can only assume that AFSI did not disclose **\$245 million** of ceded losses in its SEC filed financials from 2010 to 2012.

Furthermore, adding the 2010 to 2012 ceded losses (**\$245 million**) to ACHL (Luxembourg) referenced in the above table to the losses ceded (**\$31.8 million**) to ACHL per All Bermuda's statutory filing 2009 earlier in our report works out to about **\$276.9 million**.

This comparison clearly indicates that the results AFSI reports to investors significantly understate the loss expense (thereby significantly overstating income).

2010 Net Loss Reserves in 10-K Exclude ACHL

Thus far, we have primarily focused on income statement analysis to support our conclusions. But we can also reference balance sheet items to show that AFSI is not recognizing All Luxembourg loss items, such as net loss reserves. Taking a look at AFSI's 2010 10-K, we can calculate net loss reserves from page **F-3** (amounts in thousands):

Now, it appears that ACHL's net loss LAE **reserves** are not incorporated in AFSI's 10-K, even though All Bermuda has disclosed that ACHL has L/LAE has reserves of 93.975 in its filings.

The reported loss reserves in the 10-K (**\$449.448 million**) are different from the sum of subsidiary loss reserves (\$592.88 million) by the exact amount sitting at ACHL (\$93.975 million). This is potentially a \$93.43 million hole in the AFSI balance sheet. See below from All Bermuda financial statements:

Source: All ("Bermuda") Income Statement aka "Net Loss Reserves" Source: All ("Bermuda") Balance Sheet

December 31, 2010	Assumed (Ceded) Incurred Losses and LAE	Assumed (Ceded) Unpaid Losses and LAE	Assumed Unearned Premium
Affiliates:			
TIC	\$215,200,735	\$270,068,174	\$164,178,975
RIC	31,966,805	106,069,462	38,734,616
WIC	109,585,192	106,096,164	125,915,346
AIIC	5,023,312	13,107,358	2,504,888
SNIC	19,904,440	24,013,337	13,925,623
MCIC	6,459,969	8,072,555	3,977,838
AICK	11,437,155	19,302,189	9,352,444
ALIC	(84,026)	644,621	(4)
AEL	55,755,472	38,477,843	57,378,636
AIUL	141,553,897	54,462,725	123,243,658
ACHL	(62,123,808)	(93,975,885)	-
Non-affiliates assumed	10,904,457	21,752,578	5,770,040
	545,583,600	568,091,121	544,982,060
Non-affiliates ceded	296,056,875	323,190,424	283,899,240
	\$249,526,725	\$244,900,697	\$261,082,820

Source: 2009/2010 AFSI Financial Statements, issued by BDO, page 34

Using the same AM Best filings we have been using throughout our article, we can also show that ACHL's net loss reserves appear to not be reflected in AFSI's 2010 10K. *As one would expect, since the premium earned ties out (as discussed earlier), unearned premiums tie out between Am Best and 10k from the above table, it is revealing that net loss reserves do not even closely match.*

2010	US Subs	AEL	AIUL	All	ACHL	Subtotal (AM Best + All Bermuda 2010 Financials)	10K	10K vs. Subtotal
Net L/LAE Reserves	223.40	20.70	9.90	244.90	93.98	592.88	499.45	(93.43)
Net Unearned Prem	192.09	60.72	25.90	261.08	-	539.79	540.01	0.21

Source: AM Best AM Best AM Best 2010 Financials All 2010 Financials N/A 10K N/A

Information GAAP – Investors & Ratings agencies Need More Data Points to Properly Assess Luxembourg Risk

We believe that the company is not recognizing the losses to make reported earnings look better. This could also lead to downgrades from AM Best, as AM Best's ratings assumptions use the net losses and loss adjustments that match *unconsolidated* financials and therefore do not include the full financial results.

AFSI should provide additional Information regarding losses ceded to Luxembourg to the public and ratings agencies. The financial data AM Best uses to assign a credit rating to AFSI match what is in AFSI's 10-K, so it seems ACHL's losses are not part of the ratings evaluation process (AFSI supplies AM Best with statutory filings).

Comparing the 2010 financial statements of All Bermuda, which show ceded net losses to ACHL of **\$62.1 million**,

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with the 2010 AM Best report for All Bermuda (see previously discussed '**AM Best + ACHL Comparison to SEC Filings**'), we see that the net loss & loss adjustment expense of **\$249.5 million** matches. Therefore, the net loss expense shown in the AM Best report (appropriately based on their methodology) excludes the losses of All Bermuda's wholly owned subsidiary, ACHL, and only takes into account the reported unconsolidated numbers.

Life Settlement Mismarking

AFSI appears to be boosting earnings and tangible book value by marking up its portfolio of life settlement contracts ("LSCs"). LSC, net of non-controlling interest now represent approximately 19% of AFSI's tangible book value. In valuing an LSC portfolio, the discount rate and life expectancy ("LE") are the two most critical inputs. AFSI uses a 7.5% discount rate to value its LSCs while peers use a rate approximately 20%. Applying industry standard discount rates would result in a mark down of \$90-135 million, or roughly 13-19% of AFSI's tangible equity. Further, it appears that AFSI **relies on** internal estimates, **only considering** third party estimates for the LE input (See [10-Q for the period ended September 30, 2013, page 17](#)). In contrast, best practice is to use third party estimates to determine LE estimates and weight them towards the more conservative estimate. The use of internal LE estimates has been a staple of past frauds in the LSC industry (notably, [Life Partners](#) and [Mutual Benefits](#)).

AFSI has been revising down its LE assumptions, generating gains on its LSC portfolio. Publicly traded peers are [revising their LE assumptions higher](#) (especially for the premium-financed LSC paper that AFSI holds) (**see footnote 8**). Simply put, peers are assuming people are living longer while AFSI assumes people are going to die sooner. We are unaware of any reason why AFSI is taking a non-consensus view on lifespans of Americans. It is possible that AFSI's policyholders en masse have decided to take up smoking, skydiving, or ride motorcycles without their helmets, but given a diverse base of people, this seems unlikely despite what AFSI management is asking the market to believe if you accept its LSC valuations.

More than half of AFSI's LSC portfolio consists of contracts where Phoenix Life Insurance is the issuing carrier/counterparty. Faced with possible bankruptcy, PNK has been attempting to induce holders of its LSC paper to lapse on their policies by hiking premiums & denying death benefits. Given the possibility that PNK death benefits will not be paid, when PNK paper does trade, it trades for pennies on the dollar.

For example, Fortress described the market for Phoenix policies in a [complaint filed August, 2012](#) as follows:

"As a result of Defendants' anticompetitive and exclusionary conduct, there are very few, if any, buyers who remain willing to purchase Phoenix life insurance policies on the secondary market. Defendants' anticompetitive and exclusionary conduct, and the resulting uncertainty it has created, has destroyed the value of Phoenix policies and robbed policyholders of the once-precious ability to sell their policies in a competitive market. The few buyers who do remain will only buy Phoenix policies at severe discounts..."

Tiger Capital LLC, an AFSI sub, [filed a lawsuit against Phoenix in 2012](#). In recent days, [Tiger Capital's court documents](#) showed it held 136 Phoenix LSCs. In their third quarter 2013 10-Q, AFSI disclosed 81 of the policies it held are carried at "no value", including those policies that have a negative NPV. This implies that a minimum 55 of the Phoenix policies (136 minus 81) have been assigned value despite there being essentially no buyers for these policies. Marking these LSCs to true market value would result in a significant impairment.

AFSI suggests that marking its LSC book at \$194 million is conservative; since this represents a 17.7% IRR based on \$795 million in future cash flows. But, if one were to apply the same LE standard peers use, this \$795 million would be lower since longer LEs require more premiums to be paid before the death benefit is received. By shortening LE, the policy holder gets to "double dip" by using fewer years in the present value calculation and by assuming less premiums paid. The effect is not simply an adjustment based on discount rate. The true amount of

The peer group calculation would then be to discount the \$439 million by 17.7% or more, rather than the 7.5% discount rate AFSI uses. We estimate that AFSI's LSC would be worth \$90 – \$135 million less if they used the same discount rate as peers based on their disclosed sensitivity to changes in the discount rate assumption.

In fact, since Phoenix policies (they make up the policies in the LSC portfolio) trade at cents on the dollar, an appropriate discount rate is probably 50-60%.

Finally, despite claiming to set reserves based on LEs calculated by outside data providers, management does not address why its own LE assumptions have been falling (generating portfolio gains) while peers, who rely on the same data providers, are revising their LEs upward. As we said earlier, it could be that the people associated with contracts owned by AFSI are becoming riskier.

See the below chart for a display of comparable companies and the discount rates they use. Note that the one company, EEA LS Fund (Full Credibility) that uses a discount rate assumption (10.0%) closest to AFSI's (7.5%) has **been warned by its auditor Ernst & Young**, that the discount rate is **"significantly lower than what would be used by market participants in an arm's-length transaction"**:

Company (Ticker) / Fund	Discount Rate	Disclosures (emphasis added)
Imperial Holdings (IFT)	19.63%	"The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy and our estimate of the risk premium an investor in the policy would require." (IFT 3q13 10Q, page 29) "... the Company has been re-evaluating its discount rates at the end of every reporting period in order to reflect the estimated discount rates that could reasonably be used in a market transaction involving the Company's portfolio of life insurance policies." (IFT 3q13 10Q, page 29)
Absolute Life Solutions (ALSO)	20.0%	"The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy and our estimate of the risk premium an investor in the policy would require." (ALSO 2012 10K (Year Ending 8/31/12), page 48) "Additionally, in the past 6 months, the Company, in the normal course of business, sold two fair value policies (each with face amounts below \$15 million) to another investor, for a discount rate of between 19% and 22%. Additionally, in discussions with investors for potential debt offerings, and in discussions with other investors for potential sales of policies, the discount rate, for policies with face amounts below \$15 million, indicated a rate of between 18% and 22%." (ALSO 2012 10K, page F-14)
EEA LS Fund (Zero Credibility)	19.0%	"Within this valuation, a discount rate consistent with those observed in the secondary and tertiary market for trading life insurance policies was used to discount the cash flows." (2011 Annual Report, page 15)
EEA LS Fund (Full Credibility)	10.0%	"Within this valuation, a lower discount rate was used based on the discount rates used in the high yield bond market." (2011 Annual Report, page 16) Auditor (Ernst & Young): "The discount rate of 10% in the "full credibility" value is, in our view, significantly lower than would be used by market participants in an arm's-length transaction to purchase the assets of the fund" (2011 Annual Report, page 7)
Amtrust Financial Services (AFSI)	7.5%	"The Company estimates the fair value of a life insurance policy by applying an investment discount rate based on the cost of funding, the Company's life settlement contracts as compared to returns on investments in asset classes with comparable credit quality, which the Company has determined to be 7.5%, to the expected cash flow generated by the policies in the Company's life settlement portfolio (death benefits less premium payments), net of policy specific adjustments and reserves." (AFSI 3q13 10Q, page 17) "Discount rate is a present value calculation that considers legal risk, credit risk and liquidity risk and is a component of EDR" (AFSI 3q13 10Q, page 18)

We wonder what E&Y would have to say if they were to replace BDO as AFSI's auditor?

AFSI Disclosure Discrepancies

Amtrust frequently has discrepancies between the balance sheet items presented in press releases and SEC filings. However, the adjustments made to the balance sheet have not resulted in changes to Shareholders' Equity, Goodwill & Intangibles, or the Income Statement items.

10K or 10Q Balance Relative Press Release								
Column 1	Assets				Liabilities		Equity	Income Statement
	Cash & Investments	Premiums Receivable	Goodwill & Intangibles	Total Assets	L/LAE Reserves	Unearned Premiums	Shareholders' Equity	Net Income
1q09	(0.78)	-	-	(13.73)	(2.85)	(10.88)	-	-
2q09	-	-	-	(3.67)	-	-	-	-
3q09	-	(8.26)	-	(12.66)	-	-	-	-
4q09	-	-	-	-	-	-	-	-
1q10	2.49	-	-	-	-	-	-	-
2q10	-	-	-	-	-	-	-	-
3q10	-	-	-	-	1.68	-	-	-
4q10	-	-	-	-	-	-	-	-
1q11	-	(2.60)	-	-	-	-	-	-
2q11	-	(94.81)	-	(94.81)	-	-	-	-
3q11	-	-	-	-	-	-	-	-
4q11	-	-	-	-	-	-	-	-
1q12	-	(7.65)	-	(9.18)	(0.27)	(6.03)	-	-
2q12	-	-	-	-	-	-	-	-
3q12	-	-	-	-	-	-	-	-
4q12	-	47.08	-	(4.37)	(4.84)	-	-	-
1q13	-	-	-	(29.43)	(3.10)	-	-	-
2q13	(0.74)	2.76	-	-	-	-	-	-
3q13	-	(43.59)	-	Not in PR	-	-	-	-

The discrepancies could have offsetting entries as appears to be the case in the first quarter of 2009 where adjustments to assets and liabilities offset. Additionally, the press release only includes certain line items, so there could be offsetting entries that we are unable to see. However, there are other quarters where the magnitude of the discrepancy is significant and likely explanations do not appear to offset the adjustment.

For example, in the fourth quarter of 2012 AFSI reported \$47.1 million more premiums receivable in the 10-K than in the press release (excerpts below), \$4.37 million fewer total assets and \$4.84 million fewer loss reserves:

Dec. 31, 2012 (in thousands)		
	Press Release	10K
Premium Receivable	1,204,181	1,251,262
Total Assets	7,421,602	7,417,237
Loss and Loss Expense Reserves	2,431,244	2,426,400
Unearned Premium	1,773,593	1,773,593
AmTrust's Stockholder's equity	1,144,121	1,144,121

AmTrust Financial Services, Inc. Balance Sheet Highlights (in thousands) (Unaudited)			
	December 31, 2012	December 31, 2011	
Cash, cash equivalents and investments	\$ 2,696,402	\$ 2,086,638	
Premiums receivables	1,204,181	932,992	
Goodwill and intangible assets	514,967	372,786	
Total assets	7,421,602	5,732,518	
Loss and loss expense reserves	2,431,244	1,879,175	
Unearned premium	1,773,593	1,366,170	
Trust preferred securities	123,714	123,714	
Convertible senior notes	161,218	138,506	
AmTrust's stockholders' equity	1,144,121	890,563	
Book value per share	\$ 17.03	\$ 13.47	

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (In Thousands, Except Par Value per Share)			
	December 31,		
	2012	2011	
ASSETS			
Investments:			
Fixed maturities, available-for-sale, at market value (amortized cost \$1,947,644; \$1,382,863)	\$ 2,065,226	\$ 1,394,243	
Equity securities, available-for-sale, at market value (cost \$20,943; \$34,041)	20,465	35,600	
Short-term investments	10,282	128,565	
Equity investment in unconsolidated subsidiaries -- related parties	96,153	83,691	
Other investments	11,144	14,588	
Total investments	2,203,270	1,656,687	
Cash and cash equivalents	414,370	406,847	
Restricted cash and cash equivalents	78,762	23,104	
Accrued interest and dividends	18,536	12,644	
Premiums receivable, net	1,251,262	932,992	
Reinsurance recoverable (related party \$789,519; \$597,525)	1,318,395	1,098,569	
Prepaid reinsurance premium (related party \$547,128; \$429,124)	754,844	584,871	
Prepaid expenses and other assets (recorded at fair value \$193,927; \$131,387)	421,163	288,450	
Federal income tax receivable	16,609	13,024	
Deferred policy acquisition costs	349,126	280,991	
Property and equipment, net	75,933	61,553	
Goodwill	229,780	175,924	
Intangible assets	285,187	196,862	
	\$ 7,417,237	\$ 5,732,518	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Loss and loss expense reserves	\$ 2,426,400	\$ 1,879,175	
Unearned premiums	1,773,593	1,366,170	
Ceded reinsurance premiums payable (related party \$333,962; \$222,408)	528,322	337,508	
Reinsurance payable on paid losses	13,410	14,731	
Funds held under reinsurance treaties	33,946	49,249	
Note payable on collateral loan -- related party	167,975	167,975	
Securities sold but not yet purchased, at market	56,711	55,942	
Securities sold under agreements to repurchase, at contract value	234,911	191,718	
Accrued expenses and other current liabilities (recorded at fair value \$11,750; \$12,022)	406,447	311,793	
Deferred income taxes	225,484	118,396	
Debt	301,973	279,600	
Total liabilities	6,169,172	4,772,257	
Total AmTrust Financial Services, Inc. equity	1,144,121	890,563	
Non-controlling interest	103,544	69,098	
Total stockholders' equity	1,247,465	959,661	

Sources for the **three images above**: [Fourth quarter 2012 Press Release](#) and [2012 10-K](#)

An increase in premiums receivable should be offset by either:

1. a reduction in cash if the premium was thought to be collected but actually was not,
2. an increase in unearned premiums if additional premiums correspond to future policies, or
3. a higher reported revenue.

However, none of these were the case. We question what other offsetting entry AFSI made and why it was not accompanied by an explanation in the 10-K or an 8-K to correct the press release if there was an error. How does \$47 million simply appear and then disappear? AFSI management needs to explain what happened.

Interestingly, David Einhorn (Greenlight Capital) had similar questions and concerns with Lehman Brothers' disclosures:

"As you can see, the table in the 10-Q does not match the conference call. There is no reasonable explanation as to how the numbers could move like this between the conference call and the 10-Q. The values should be the same. If there was an accounting error, I don't see how Lehman avoided filing an 8-K announcing the mistake. Notably, the 10-Q changes somehow did not affect the income statement, as there must have been offsetting adjustments somewhere in the financials."

Source: <http://foolingsomepeople.com/main/TCF%202008%20Speech.pdf>

Several pieces of information make it difficult to put our trust in the AFSI management Team.

Outright Fraud- Theft and Money Laundering

AFSI CFO Ronald Pipoly & COO Michael Saxon were executive officers at Credit General ("CGI"), a P&C insurance company that was [liquidated in 2001](#) by the Ohio insurance regulator after it was revealed that the CEO Robert Lucia had stolen \$30 million from the company. [From Court documents](#):

"During this same period of time, Mr. Lucia, in breach of the duties of care and loyalty that he owed to Credit General, diverted checks belonging to Credit General into the Outside Accounts. Although the precise amounts so diverted are presently not known, Plaintiff reasonably estimates that the amount so diverted exceeded \$30 million."

Other members of the executive suite issued false financials to hide the theft. CFO Pipoly was Controller of CGI at the time, & COO Saxon was Chief Claims Officer. Both men were named as defendants in lawsuits (see [here](#) and [here](#)) brought by the Ohio Director of Insurance, alleging they were actively involved in the cover-up. Here is a quote from the relevant court filings:

"Fazekash subsequently notified Pipoly that Lucia would be wiring a substantial sum of money to CGIC and instructed Pipoly to account for the money as a reduction of CGIC's commission expense. Pipoly understood that Lucia would be wiring the money to follow through on Lucia's commitment to cease diverting premium payments. Pipoly also understood that an accounting entry to reduce commission expense would not be the appropriate way to account for previously unrecorded premium payments."

In the years prior to liquidation, CGI reported incredible growth in premiums written, with a focus on small company worker's comp (similar to AFSI). AmTrust, which entered into a management agreement with CGI in 2000, was also sued by the Ohio Director of Insurance.

Valuation/Conclusion:

Comparable publicly traded property & casualty insurance companies currently trade between 1x to 1.5x tangible book value per share ("TBV"), yet at around \$40 AFSI trades at 4.7x TBV of \$8.61 on a fully diluted basis. **Even barring the issues we have presented, AFSI appears massively overvalued.**

Ticker	Price	Mkt Cap (mm)	Price to:	
			Book	Tang Book
WRB	\$ 43.24	\$ 6,197	1.3x	1.4x
TWGP	\$ 3.90	\$ 171	0.4x	0.5x
EIG	\$ 31.04	\$ 984	1.7x	1.9x
AGII	\$ 47.98	\$ 1,375	0.8x	1.0x
SIGI	\$ 26.70	\$ 1,493	1.3x	1.3x
MIG	\$ 7.12	\$ 357	0.8x	0.9x
NAVIG	\$ 62.30	\$ 893	1.0x	1.0x
NATL	\$ 25.63	\$ 502	1.5x	1.5x
Average			1.1x	1.2x
Median			1.2x	1.2x
Max			1.7x	1.9x
Min			0.4x	0.5x
MHLD	\$ 12.40	\$ 907	1.1x	1.3x
AFSI	\$ 40.42	\$ 3,185	2.5x	4.7x

Ticker	Price	Mkt Cap (mm)	Price to:		P / E		
			Book	Tang Book	2012	2013	2014
WRB	\$ 43.24	\$ 6,197	1.3x	1.4x	16.6x	14.6x	13.5x
TWGP	\$ 3.90	\$ 171	0.4x	0.5x	-6.1x	-0.8x	9.2x
EIG	\$ 31.04	\$ 984	1.7x	1.9x	141.1x	29.7x	21.7x
AGII	\$ 47.98	\$ 1,375	0.8x	1.0x	36.1x	15.9x	14.0x
SIGI	\$ 26.70	\$ 1,493	1.3x	1.3x	46.0x	16.4x	14.0x
MIG	\$ 7.12	\$ 357	0.8x	0.9x	-12.5x	79.1x	13.4x
NAVIG	\$ 62.30	\$ 893	1.0x	1.0x	23.7x	15.3x	16.9x
NATL	\$ 25.63	\$ 502	1.5x	1.5x	16.8x	39.0x	15.5x
Average, excluding >30 or <0 P/E			1.1x	1.2x	20.1x	18.4x	14.8x
Median, excluding >30 or <0 P/E			1.2x	1.2x		15.9x	14.0x
Max			1.7x	1.9x			
Min			0.4x	0.5x			
MHLD	\$ 12.40	\$ 907	1.1x	1.3x	18.8x	10.9x	8.6x
AFSI	\$ 40.42	\$ 3,185	2.5x	4.7x	16.1x	13.2x	11.6x

The bullish investors will try to justify this premium valuation by referencing AFSI's "impressive" *reported* EPS growth and a P/E that is in-line with comparables. However, once our findings become apparent **the market may place little value on AFSI's earnings and P/E** and will instead focus on TBV.

Interestingly, the next highest P/TBV multiple belonged to a very good comparable to AFSI, TWGP, until it blew up as a result of under-reserving. It now trades at a discount to TBV. If we were to use a 1x to 1.5x AFSI's current stated TBV, the stock would be \$8.50 to \$13 per share. If we are right about the hidden losses (a \$276.9 million hit) and our LSC over valuation (a \$113 million mid-point hit) conclusions, **it will be worth \$3.87.**

<u>Description</u>	<u>3Q 2013</u>
Total AFSI Equity	\$ 1,388.4
Less Preferred Stock	\$ (115.0)
AFSI Common Equity	\$ 1,273.4
Less Goodwill	\$ (249.2)
Less Intangibles	\$ (345.7)
AFSI Tangible Common Equity	\$ 678.5
Less Luxembourg Hidden Losses	\$ (276.9)
Less LSC Impairment	\$ (113.0)
PF Tangible Book Value	\$ 288.6
Fully Diluted (FD) Shares	78.80
Basic Shares (for PF)	74.55
BV / Share (FD Shares)	\$ 16.16
TBV / Share (FD Shares)	\$ 8.61
PF TBV / Share (Basic Shares)	\$ 3.87
P / TBV Multiple	1.0x
Price Target	\$ 3.87

Disclosure: Short AFSI

Footnotes:

¹ In 3Q13, AFSI held 272 total policies. The Tiger Capital lawsuit claimed that AFSI held 138 policies issued by Phoenix. So Phoenix is 50.7% of the portfolio.

² Derived from 2012 Technology Insurance Company Inc.'s Schedule Y, Part 1A "Detail of Insurance Holding Company System"

³ During 2012, All made a section 953('d') election which means that All is now treated as a US corporation and included in AFSI's consolidated US tax return. AFSI maintains other non-US subsidiaries for which profits are considered to be indefinitely invested offshore.

⁴ Note that net premium written and net earned premium very closely approximate the results reported in the 10-K, demonstrating that there are not any material operations that are missing other than ACHL.

⁵ Reference: Materials For The [International Solvency And Accounting Standards Working Group](#) , April 2013

⁶ Our estimate is derived from AFSI's purchase price allocation disclosures. DTLs associated with Luxembourg acquisitions totaled \$206.4m and AFSI disclosed that a 30% tax rate is applied to equalization reserves acquired (\$206.4m/30%).

⁷ Note that net premium written and net earned premium very closely approximate the results reported in the 10-K, demonstrating that there are not any material operations that are missing other than ACHL.

⁸ In 2012, AFSI disclosed the average age of insured was 79 with 139 months left to live versus 2011 estimates of 155 months left to live on an age of 77.